

PROPOSED DECISION

Agenda ID #12728 (Rev. 1)
Ratesetting
2/27/2014 Item 13

Decision **PROPOSED DECISION OF ALJ KENNEY** (Mailed 1/27/2014)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U338E) to issue, sell, and deliver one or more series of Debt Securities to finance its Diesel Fuel, Natural Gas and Nuclear Fuel Inventories, the total aggregate principal amount of such indebtedness and guarantees not to exceed \$450,000,000; and to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property.

Application 13-09-004
(Filed September 5, 2013)

**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY
TO ISSUE DEBT SECURITIES TO FINANCE FUEL INVENTORIES**

TABLE OF CONTENTS

| <u>Title</u> | <u>Page</u> |
|---|-------------|
| DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY TO ISSUE DEBT SECURITIES TO FINANCE FUEL INVENTORIES | 1 |
| 1. Summary | 2 |
| 2. Procedural Background | 2 |
| 3. Existing Authority to Issue Debt Securities | 3 |
| 4. Summary of the Application..... | 3 |
| 4.1. Requested Authorizations and Findings..... | 3 |
| 4.2. Use of Proceeds | 4 |
| 4.3. Types of Debt Securities | 6 |
| 4.4. Debt Enhancements..... | 8 |
| 4.5. Swaps and Hedges | 9 |
| 4.6. Estimated Cost..... | 11 |
| 5. Discussion | 12 |
| 5.1. Authority to Issue Debt Securities..... | 12 |
| 5.1.1. Pub. Util. Code § 816..... | 12 |
| 5.1.2. Pub. Util. Code § 817..... | 12 |
| 5.1.3. Pub. Util. Code § 818..... | 14 |
| 5.1.4. Pub. Util. Code § 821..... | 15 |
| 5.1.5. Pub. Util. Code § 830..... | 15 |
| 5.1.6. Pub. Util. Code § 851..... | 16 |
| 5.2. Types of Debt Securities | 17 |
| 5.3. Debt Enhancements, Swaps, and Hedges..... | 17 |
| 5.4. Other Regulatory Requirements..... | 19 |
| 5.4.1. Financing Rule and General Order 24-C | 19 |
| 5.4.2. Ratemaking and Pub. Util. Code § 451 | 20 |
| 5.4.3. Pub. Util. Code § 1904..... | 22 |
| 6. California Environmental Quality Act | 23 |
| 7. Categorization and Need for Hearings | 24 |
| 8. Comments on the Proposed Decision..... | 24 |
| 9. Assignment of the Proceeding..... | 25 |
| Findings of Fact..... | 25 |
| Conclusions of Law | 26 |
| ORDER | 29 |

**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY
TO ISSUE DEBT SECURITIES TO FINANCE FUEL INVENTORIES**

1. Summary

In response to Application 13-09-004, this decision grants Southern California Edison Company (SCE) authority pursuant to Public Utilities Code Sections (Pub. Util. Code §§) 816 – 818, 821, 830, and 851 to do the following:

1. Issue one or more series of debt securities with an aggregate principal amount of up to \$450 million (hereafter, “Debt Securities”), including Debt Securities secured by utility property.
2. Use debt enhancements, swaps, and hedges to improve the terms and conditions of the Debt Securities and to reduce financial risks.
3. Use the proceeds from the Debt Securities to (1) retire \$400 million of debt that matures in 2014, and (2) finance diesel, natural gas, and nuclear fuel inventories.

The authority granted by this decision will help SCE fulfill its obligation under Pub. Util. Code § 451 to “furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities...as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.”

The cost of the Debt Securities will depend on market conditions when the securities are issued. SCE estimates the annual cost of the Debt Securities (i.e., interest expense, trustee fees, etc.) will be \$12 million.

This proceeding is closed.

2. Procedural Background

Southern California Edison Company (SCE) is a public utility subject to the Commission’s jurisdiction. SCE is engaged primarily in the generation, purchase, transmission, distribution, and sale of electricity to approximately

5 million customer accounts in southern California. During 2012, SCE had total operating revenues of \$11.9 billion. The book value of SCE's utility property, plant, and equipment, net of depreciation, was \$25.8 billion as of June 30, 2013.

SCE filed Application (A.) 13-09-004 on September 5, 2013. Notice of A.13-09-004 appeared in the Commission's Daily Calendar on September 11, 2013. There were no protests or responses to the application.

A prehearing conference was held on November 4, 2013. The assigned Commissioner issued a scoping memo on November 14, 2013, that determined the need for hearings and the scope, schedule, and category of this proceeding pursuant to Rule 7.3(a) of the Commission's Rules of Practice and Procedure. SCE filed and served documents on October 21, October 25, December 2, and December 17, 2013, that provided additional information requested by the assigned Administrative Law Judge (ALJ).

3. Existing Authority to Issue Debt Securities

SCE was authorized by Decision (D.) 03-11-018 to issue \$750 million of debt securities to finance fuel inventories. There are no other Commission decisions that provide SCE with current authority to issue debt securities to finance fuel inventories. As of October 8, 2013, SCE had issued \$700 million of debt securities pursuant to D.03-11-018, of which \$400 million was still outstanding; SCE's remaining unused authority under D.03-11-018 was \$50 million.

4. Summary of the Application

4.1. Requested Authorizations and Findings

In A.13-09-004, SCE asks the Commission to issue an order pursuant to Public Utilities Code Sections (Pub. Util. Code §§) 816, 817, 818, 821, 830, and 851 that authorizes SCE to do the following:

1. Issue, sell, and deliver debt securities, including mortgage bonds, debentures, notes, subordinated debt securities, overseas indebtedness, foreign currency denominated securities, commercial paper, other floating rate debt, loan agreements, and other evidences of indebtedness (collectively, "Debt Securities").
2. Renew and/or refund commercial paper and other short-term Debt Securities so that the combined term of the obligations may exceed 12 months without further authorization from the Commission.
3. Arrange credit facilities for the purpose of issuing the Debt Securities and to modify such credit facilities without further authorization from the Commission.
4. Execute and deliver an indenture or supplemental indenture in connection with Debt Securities and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the Debt Securities.
5. Issue, sell, and deliver Debt Securities by public offering or private placement.
6. Issue, sell, and deliver one or more series of Debt Securities with an aggregate principal amount of up to \$450 million, and to apply the proceeds for the purposes identified in A.13-09-004.
7. Use debt enhancements, swaps, and hedges.

SCE also requests that the Commission's order contain a finding pursuant to Pub. Util. Code § 818 that the money, property or labor to be procured or paid for by the Debt Securities is reasonably required for the purposes specified in the Commission's order, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

4.2. Use of Proceeds

SCE requests authority to issue \$450 million of Debt Securities for the following purposes: (1) pay accrued interest, if any, and expenses incident to their issuance and sale; (2) finance diesel, natural gas, and nuclear fuel inventories, including nuclear fuel associated with the closed San Onofre Nuclear Generating Station (SONGS); (3) retire or refund \$400 million of debt securities

issued previously pursuant to D.03-11-018 to finance fuel inventories; and
 (4) reimburse SCE for money it has expended from its income, or from funds in its treasury not secured by or obtained from the issuance of debt or equity, for any of the aforesaid purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

SCE expects to use \$400 million of the requested Debt Securities to retire or refund debt that matures in 2014 for which SCE paid the fees levied by Pub. Util. Code § 1904. Consequently, \$400 million of the requested Debt Securities would be exempt from § 1904. The remaining \$50 million of the requested Debt Securities would be subject to the fees levied by § 1904.

The following table shows SCE's recorded and forecasted fuel inventories on December 31 for each of the years 2010 through 2017:

| SCE's Year-End Fuel Inventory Recorded (2010 - 2012) and Forecasted (2013 - 2017) | | | | | |
|--|------------------------|--------------------|---------------------------|--------------------------------|---------------|
| Year | Catalina Diesel | Natural Gas | SONGS Nuclear Fuel | Palo Verde Nuclear Fuel | Total |
| 2010 | \$295,460 | \$20,626,258 | \$249,247,205 | \$119,557,784 | \$389,726,707 |
| 2011 | \$414,693 | \$23,460,934 | \$342,595,216 | \$137,090,047 | \$503,560,889 |
| 2012 | \$351,235 | \$19,545,163 | \$467,145,401 | \$141,687,381 | \$628,729,179 |
| 2013 | \$637,297 | \$18,708,560 | \$471,883,464 | \$136,554,066 | \$627,783,387 |
| 2014 | \$646,570 | \$20,120,741 | \$301,117,284 | \$138,024,362 | \$459,908,957 |
| 2015 | \$683,267 | \$20,105,679 | \$321,116,025 | \$129,678,768 | \$471,583,740 |
| 2016 | \$719,118 | \$21,664,720 | \$321,116,025 | \$133,490,778 | \$476,990,642 |
| 2017 | \$754,107 | \$19,431,591 | \$286,120,623 | \$140,004,085 | \$446,310,406 |

SCE forecasts that its fuel inventories will exceed \$450 million at all times through 2016.

4.3. Types of Debt Securities

SCE requests authority to issue the types of long-term Debt Securities that are identified below.¹ The specific attributes of each series of Debt Securities will be determined by SCE's board of directors or management based on market conditions at the time of issuance. The requested Debt Securities may bear a fixed or variable rate of interest; may be issued at par or with an original issue discount or premium; and may have maturities of up to 100 years. Commercial paper and other short-term debt may be issued with maturities of 364 days or less and then rolled over for periods exceeding 12 months.²

SCE requests authority to sell Debt Securities by public offering or private placement. If the former, the Debt Securities may be registered with the Securities and Exchange Commission and listed on a stock exchange. SCE also seeks authority to issue Debt Securities itself or through an affiliate that will, in turn, lend or otherwise transfer the proceeds to, or for the benefit of, SCE.

Secured Debt Securities would be secured by a mortgage, lien, or other encumbrance on utility property. Senior notes and debentures may be issued as part of a "fall-away" mortgage bond structure where mortgage bonds are initially issued and later converted to unsecured notes and debentures. Because each new series of secured Debt Securities would be an additional encumbrance on SCE's utility property, SCE requests authority under Pub. Util. Code § 851 to mortgage and encumber utility property.

¹ Long-term debt securities have a maturity of 12 months or longer.

² SCE does not request authority to issue short-term debt securities pursuant to Pub. Util. Code § 823(c).

Unsecured Debt Securities may be in the form of debentures, notes, or other evidence of indebtedness. Senior unsecured Debt Securities may be issued under trust indentures. Subordinated unsecured Debt Securities would be junior to secured debt and senior unsecured debt in right of payment and liquidation.

Overseas Debt Securities would be issued and sold ultimately to foreign investors and would likely be denominated in U.S. dollars. This type of financing would only be used when it results in a lower overall cost of money to SCE and/or an affiliate than comparable domestic debt securities.

Foreign currency denominated Debt Securities would pay principal and interest in a foreign currency, and may be sold to foreign or domestic investors. Foreign currency denominated securities would be issued only when doing so results in a lower overall cost of money, including all transaction and foreign exchange contract costs, than comparable U.S. dollar denominated securities.

In conjunction with foreign currency securities, SCE or an affiliate may enter into forward contracts that obligate a counterparty to pay the foreign currency necessary to make principal and interest payments on the foreign currency security. In exchange, SCE or an affiliate would pay the counterparty U.S. dollars based on a prearranged formula. The cost of the forward contracts will be included in determining the total cost of foreign currency securities.

Medium-term notes (MTNs) may be offered on a continuous or periodic basis, sold in the domestic or foreign markets, and denominated in U.S. dollars or a foreign currency. If MTNs are sold through a placement agent, SCE or an affiliate would set the interest rates at which it would be willing to issue MTNs of various maturities. The interest rates could be updated continuously to reflect market conditions and SCE's need for funds.

Direct loans would be obtained directly from banks, insurance companies, or other financial institutions. SCE would enter into direct loans only when doing so results in a lower overall cost of money than other forms of Debt Securities, or when necessary as an interim arrangement, or for other reasons. SCE may secure loans by issuing mortgage bonds to the lenders.

Commercial paper would be short-term debt that SCE may refund or roll over. SCE anticipates it or an affiliate (acting at SCE's direction) would arrange a credit agreement with banks or other financial institutions to provide liquidity support for commercial paper indebtedness. The cost of commercial paper would include the effective yield plus any issuance expenses, including dealer commissions, issuance fees, agent fees, rating fees, and credit facility fees.

Other variable-rate debt would consist of all other forms of floating or variable-rate debt that SCE and/or an affiliate may issue from time to time when doing so results in a lower overall cost of money.

4.4. Debt Enhancements

SCE requests authority to include the following features in Debt Securities to enhance the price, rates, terms, and/or conditions of the Debt Securities for the benefit of ratepayers.

Credit enhancements may include letters of credit, standby bond purchase agreements, surety bonds, insurance policies, or other credit-support arrangements to reduce interest costs or improve other credit terms. The cost of credit enhancements would be included in the cost of the Debt Securities.

Redemption provisions and call options would allow Debt Securities to be redeemed or repaid prior to maturity at a stated price. These features would enable SCE, if market rates fall, to replace outstanding debt with lower-cost debt.

Put options would provide the owner of a Debt Security with the right to sell the security to SCE or an affiliate at a specified price. Investors may be willing to accept a lower interest rate on Debt Securities in exchange for a put option that protects the value of the owner's investment in Debt Securities.

Sinking funds would require SCE to periodically set aside funds to redeem, repurchase, or retire a specified amount of Debt Securities. SCE anticipates that the cost of Debt Securities may be reduced by sinking funds.

Warrants would provide the owner of a Debt Security with the right to purchase another debt security or a share of capital stock. The Debt Security issued upon exercise of a debt warrant would bear interest at a pre-established rate and would mature at a pre-established time. No additional underwriting fees would be incurred upon exercise of the warrants. Debt warrants would most likely be exercised if interest rates decline below the pre-established rate and would most likely expire unexercised if rates remain above the pre-established rate. Stock warrants would most likely be exercised if the stock price rises above a pre-established price and would most likely expire unexercised if the stock price remains below the pre-established price. SCE posits that even if the warrants are exercised, ratepayers would realize savings because of the premium received from the sale of the warrants.

4.5. Swaps and Hedges

SCE seeks authority to enter into swap agreements to improve the terms and conditions of Debt Securities for the benefit of ratepayers. Swaps may enable SCE to reduce its borrowing costs by issuing fixed or floating rate debt and entering into interest rate swap contracts to convert fixed interest payments into favorable floating rate payments or vice versa, or to convert floating rate payments tied to one index into floating rate payments tied to another index.

Swaps can reduce financing costs if the resulting interest rate is lower than SCE could have obtained by issuing a comparable security directly.

SCE also requests authority to enter into hedges to mitigate certain financial risks associated with the Debt Securities. To mitigate the risk that interest rates for floating-rate Debt Securities may rise, SCE seeks authority to enter into contracts that limit SCE's exposure to higher interest rates. Such contracts may include interest rate caps, floors, collars,³ and swaps.

To reduce the risk of increased interest rates associated with planned issuances of fixed-rate Debt Securities, SCE requests authority to enter into contracts for interest rate locks, caps, collars, and forward-starting swaps. Interest rate locks and caps would be used to "lock in" or cap the forward interest rate of a specified Treasury or other security on which a fixed-rate Debt Security will be priced at some future date. Collars would be used to "lock in" a range of forward rates of a specified Treasury or other security on which a fixed-rate Debt Security will be priced at some future date.

To hedge the overall cost of a planned debt issuance, SCE requests authority to enter into forward-starting swaps whereby the effective start date of a swap is weeks, months, or years in the future. These types of swaps fix the cost of borrowing today without having to start the transaction right away.

³ To reduce exposure to higher interest rates, SCE may negotiate a maximum "cap" rate. If floating rates rises above the cap rate, SCE would pay only the cap rate. The counterparty to the contract may desire a floor rate so that if the floating rate falls below the floor rate, SCE would pay the floor rate. Such floor and cap rates are known as collars because the interest rate fluctuates within a negotiated band.

Finally, to hedge risks associated with Debt Securities denominated in a foreign currency, SCE requests authority to enter into currency swaps and swaps denominated in a foreign currency, including forward--starting swaps.

SCE's swaps and hedges will comply with the requirements set forth in D.12-06-015, which are summarized later in this decision. The terms and conditions of swaps and hedges will be determined by SCE based on market conditions at the time such transactions are negotiated. An affiliate's swaps and hedges may be guaranteed by SCE. SCE requests that swaps and hedges not be counted as separate debt.

4.6. Estimated Cost

SCE provided the following estimate of the cost of the requested Debt Securities, assuming that A.13-09-004 is granted:

| Estimated Cost of Requested Debt Securities | | | | | | | | |
|---|-----------------------|--------------|-------------|-----------------------------|---------------------------|---------------------|---|--|
| A | B | C | D | E | F | G | H | I |
| Date Issued | Principal (\$Million) | Term (Years) | Coupon Rate | Annual Interest (\$Million) | Annual Trustee Fees (\$M) | Issuance Fees (\$M) | Amortized Issuance Fees (G ÷ 3) (\$Million) | Total Annual Costs (E + F + H) (\$Million) |
| Sept. 2014 | 450 | 3 | 2.5640% | 11.538 | 0.012 | 1.34 | 0.447 | 11.997 |
| Total Cost for 3 Years: | | | | | | | | 35.991 |

The above table shows that SCE forecasts it will issue \$450 million of Debt Securities with a maturity of 3 years at an annual cost of \$11.997 million, assuming all the Debt Securities are issued and outstanding. The total forecasted cost is \$35.991 million over the 3-year life of the Debt Securities. SCE's actual costs may differ from its forecasted costs.

The estimated costs shown in the above table are limited to interest expense, issuance costs, annual trustee fees of \$12,000, and the fees levied by Pub. Util. Code § 1904. The above table does not include repayment of principal or the costs and benefits of debt enhancements, swaps, and hedges.

5. Discussion

5.1. Authority to Issue Debt Securities

SCE's application for authority to issue \$450 million of long-term Debt Securities is subject to Pub. Util. Code §§ 816, 817, 818, 821, 830, and 851. We address each of these laws below.

5.1.1. Pub. Util. Code § 816

Pub. Util. Code § 816 provides the Commission with broad discretion to (1) determine if a utility should be authorized to issue long-term debt securities, and (2) attach conditions to the issuance of debt securities in order to protect and promote the public interest. For the reasons set forth below, we find that it is reasonable to authorize SCE to issue \$450 million of Debt Securities pursuant to Pub. Util. Code § 816, subject to several conditions.

5.1.2. Pub. Util. Code § 817

Pub. Util. Code § 817 provides that a public utility may issue long-term debt only for the purposes specified in § 817. Here, SCE requests authority to issue \$450 million of Debt Securities for the following purposes: (1) retire or refund \$400 million of long-term debt that matures in 2014 that was issued previously to finance fuel inventories pursuant to D.03-11-018; (2) provide \$50 million of additional financing for fuel inventories; (3) payment of accrued interest and expenses incident to the issuance of Debt Securities; and (4) reimburse SCE for money it has expended from income, or from funds in its treasury not obtained from the issuance of debt or equity, for any of the aforesaid

purposes except maintenance of service and replacements. The amounts so reimbursed will become part of SCE's general treasury funds. All of the previously identified purposes are intended to provide financing for SCE's diesel, natural gas, and nuclear fuel inventories.

We find that SCE's request to issue \$450 million of Debt Securities for the previously identified purposes is permitted by the following subsections of Pub. Util. Code § 817:

- § 817(a) authorizes the issuance of long-term debt for the acquisition of property. We consider fuel inventories to be a type of property that is within the ambit of § 817(a).
- § 817(c) authorizes the issuance of long-term debt for the maintenance of service. We consider fuel inventories to be necessary for the maintenance of the public utility services provided by SCE.
- § 817(d) authorizes the issuance of long-term debt for the discharge or lawful refunding of a utility's obligations. We consider the issuance of the requested Debt Securities to retire or refund \$400 million of maturing long-term debt that was issued previously to finance fuel inventories pursuant to D.03-11-018 to be within the ambit of § 817(d).
- § 817(g) authorizes the issuance of long-term debt for the retirement of, or in exchange for, outstanding long-term debt. We consider the use of the requested Debt Securities to retire or refund \$400 million of maturing long-term debt that was issued previously to finance fuel inventories pursuant to D.03-11-018 to be within the ambit of § 817(g).
- § 817(h) authorizes the issuance of long-term debt to reimburse money expended from a utility's income, or from funds in the utility's treasury not secured by or obtained from the issuance of debt or equity, for any of the aforesaid purposes except maintenance of service and replacements, but only in cases where the utility has kept its accounts in a way that enables the Commission to ascertain the amount of money so expended and the purposes for which such

expenditure was made. Here, SCE seeks to use the proceeds from the Debt Securities for the purposes authorized by § 817(h), and SCE is required by General Order 24-C to maintain its accounts in a manner consistent with § 817(h).

SCE's request for authority to issue \$450 million of Debt Securities is in addition to SCE's remaining authority under D.03-11-018 to issue \$50 million of debt securities to finance fuel inventories. Thus, granting SCE's request would provide SCE with authority to issue a total of \$500 million (\$450 million + \$50 million) of debt to finance fuel inventories.

SCE forecasts that it will have fuel inventories of at least \$450 million through 2016, and that its fuel inventories may reach \$628 million during this period. Based on this information, we find that SCE has a reasonable need to issue at least \$500 million of debt securities to finance fuel inventories, including the \$450 million of Debt Securities requested in A.13-09-004.

We conclude for the previous reasons that SCE's request to issue \$450 million of Debt Securities complies with Pub. Util. Code § 817.

5.1.3. Pub. Util. Code § 818

Pub. Util. Code § 818 provides that a public utility may not issue long-term debt unless it has first secured a Commission order authorizing the debt, stating the amount thereof, and the purposes to which the proceeds thereof are to be applied. Section 818 further requires the Commission to find that the money, property, and/or labor to be procured with the debt proceeds are reasonably required for the purposes specified in the order, and that such purposes are not, in whole or in part, reasonably chargeable to expenses or income.

This decision grants SCE authority pursuant to Pub. Util. Code § 818 to issue \$450 million of Debt Securities for the purposes specified previously in this decision. We find pursuant to § 818 that the money, property, and/or labor to be

procured with the debt proceeds are reasonably required for the purposes specified in the decision, and that such purposes are not, in whole or in part, reasonably chargeable to expenses or income.

5.1.4. Pub. Util. Code § 821

Pub. Util. Code § 821 provides that a public utility may issue long-term debt securities that can be converted into shares of common stock, subject to the other provisions of Pub. Util. Code §§ 816 - 830. Consistent with § 821, this decision grants SCE's request for authority to issue Debt Securities that are convertible into common stock, subject to the provisions of §§ 816 - 830 and the conditions specified in this decision.

5.1.5. Pub. Util. Code § 830

Pub. Util. Code § 830 provides that a public utility shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise with respect to the long-term debts of another person, firm, or corporation without prior permission from the Commission. In A.13-09-004, SCE requests authority under § 830 to guarantee Debt Securities issued through affiliates and the affiliates' related debt enhancements, swaps, and hedges (together, "obligations"). This decision grants SCE's request, subject to the following conditions:

- SCE shall only guarantee the obligations of regulated affiliates.
- The affiliate obligations that are guaranteed by SCE shall be for the purposes authorized by this decision (e.g., retiring \$400 million of debt that was issued pursuant to D.03-11-018 to finance fuel inventories).
- The affiliate obligations that are guaranteed by SCE produce an equal or lower cost of money for SCE's customers compared to SCE issuing the Debt Securities itself.
- SCE shareholders do not profit, either directly or indirectly, from the affiliate obligations that are guaranteed by SCE.

- The Commission and its staff have full and timely access to all affiliate books, records, and other information that pertain to the obligations that are guaranteed by SCE.

5.1.6. Pub. Util. Code § 851

SCE requests authority under Pub. Util. Code § 851 to issue Debt Securities secured by utility property. Section 851 provides that a utility shall not sell, lease, assign, dispose of, or encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public without prior approval from the Commission. The Commission has broad discretion under § 851 to authorize or deny an encumbrance of utility property. The primary standard used by the Commission is whether the encumbrance will adversely affect the public interest. When necessary, the Commission may attach conditions to an encumbrance to protect and promote the public interest.

There is no evidence in the record of this proceeding that granting SCE's request for authority under § 851 to issue Debt Securities secured by utility property will be detrimental to the public interest. To the contrary, secured debt may cost less than unsecured debt, resulting in a lower cost of capital for ratepayers. Therefore, SCE's request is granted.

The authority granted by this decision to encumber utility property does not include authority to dispose of encumbered property that is necessary or useful in the provision of utility service to the public. If a default occurs and title to any of SCE's plant, system, or property that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to terms of a secured debt indenture, the thing transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

5.2. Types of Debt Securities

SCE seeks authority to issue the following types of Debt Securities: secured debt, unsecured debt, debt issued in foreign capital markets, foreign currency denominated debt, medium-term notes, direct loans, commercial paper, and floating-rate debt. The requested types of Debt Securities are summarized in Section 4.3 of this decision and Section III of A.13-09-004.

We believe that public utilities should have reasonable latitude regarding the types of debt they may issue in order to obtain the lowest cost of capital for ratepayers. A utility's request to issue a specific type of debt security should be denied only if the requested type is unduly risky or for other good cause. That is not the case here. Therefore, we will grant SCE's request to issue the previously identified types of Debt Securities, subject to one limitation.

The one limitation concerns the length of time that SCE may issue Debt Securities. As a general principle, the maturity of debt securities issued by utilities should not exceed the remaining service life of the utility assets financed by the debt securities. Here, SCE requests authority to finance fuel inventories using Debt Securities with maturities of up to 100 years. While we believe that SCE will have fuel inventories for the foreseeable future, the record of this proceeding does not permit us to forecast whether, and to what extent, SCE will have fuel inventories 20 years hence, much less 50 or 100 years hence. We conclude that, on balance, it is reasonable to limit the maximum maturity of Debt Securities issued pursuant to this decision to December 31, 2024.

5.3. Debt Enhancements, Swaps, and Hedges

SCE requests authority to use the debt enhancements, swaps, and hedges identified in Sections 4.4 and 4.5 of this decision. In D.12-06-015, the Commission authorized utilities to use debt enhancements, swaps, and hedges for debt

securities, subject to after-the-fact review by the Commission. The only requirement that a utility must satisfy in a financing application such as A.13-09-004 is to provide “a brief description and rationale for the potential use of a debt enhancement or the risk management properties associated with the potential use of a derivative instrument to hedge risk exposure.”⁴ SCE provided the required information in A.13-09-004. To reiterate, SCE represents that the requested debt enhancements, swaps, and hedges will be used to enhance the price, rates, terms, and/or conditions of the Debt Securities for the benefit of ratepayers, and to hedge financial risks associated with the Debt Securities for the benefit of ratepayers.

For the preceding reasons, SCE is authorized to use the requested debt enhancements, swaps, and hedges, subject to the following conditions and restrictions set forth in D.12-06-015 for swaps and hedges:⁵

- i. SCE shall list in its General Order 24-C reports to the Commission any interest income and expense from swaps and hedges during the period covered by the report.
- ii. Swaps and hedges shall not exceed 20% of a SCE’s total long-term debt outstanding.
- iii. All costs associated with hedging transactions may be reviewed in regulatory proceedings addressing SCE’s cost of capital.
- iv. Hedging transactions that carry potential counterparty risk must have counterparties with investment grade credit ratings.
- v. If a swap or hedge is terminated before the original maturity, all termination-related costs may be reviewed in SCE’s next regulatory proceeding addressing its cost of capital.

⁴ D.12-06-015 at 28-30 and Attachment A at A-5, as corrected by D.12-07-003.

⁵ D.12-06-015 at 29 and Attachment A at A-5, as corrected by D.12-07-003.

- vi. SCE shall provide the following to Commission staff within 30 days of receiving a written request: (i) all terms, conditions, and details of swap and hedge transactions; (ii) rationale(s) for the swap and hedge transactions; (iii) estimated costs for the “alternative” or un-hedged transactions; and (iv) copy of the swap and hedge agreements and associated documentation.

The authority granted by this decision to use debt enhancements, swaps, and hedges is limited to the Debt Securities authorized by today’s decision.

5.4. Other Regulatory Requirements

5.4.1. Financing Rule and General Order 24-C

The Financing Rule adopted by D.12-06-015 establishes the following regulations regarding the issuance of new debt securities:

- Public utilities must issue debt in a prudent manner, consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital.
- Public utilities must determine the financing terms of debt issues with due regard for (i) their full financial condition and requirements, and (ii) current and anticipated market conditions.
- Public utilities may choose whether to issue debt securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital.
- Public utilities with annual operating revenues of \$25 million or more must make every effort to encourage, assist, and recruit Women-, Minority-, and Disabled Veteran-Owned Business Enterprises in being appointed as lead underwriter, book runner, or co-manager of debt securities offerings.
- Public utilities may use debt enhancements, swaps, and hedges for debt securities, subject to certain restrictions and reporting requirements, including the restrictions on swaps and hedges identified in Section 5.3 of this decision.

General Order (GO) 24-C requires public utilities that issue debt or equity to file a semiannual report with the Commission that includes the following information for the applicable semiannual period:

1. A description of the debt and equity issued during the semiannual period, if any, including the principal amount of each issuance, the commissions paid for each issuance, and the net proceeds received for each issuance.
2. The total amount of stock issued and outstanding at the end of the semiannual period, including the total number of shares issued and the par value, if any, of such shares.
3. The total bonds and other debt issued and outstanding at the end of the semiannual period, including the principal amount of such bonds and other debt.
4. The expenditures of debt and equity proceeds during the semiannual period and the purposes for which these expenditures were made. Expenditures must be reported in a way that allows the Commission to ascertain the utility's compliance with Pub. Util. Code § 817 and the related authorizing decision.

In addition to the previously enumerated reporting requirements, GO 24-C requires utilities to maintain records which demonstrate that the proceeds from the issuance of debt and equity have been used in a manner authorized by Pub. Util. Code § 817 and the related authorizing decision. Utilities must make the records available to Commission staff upon written request.

The Financing Rule and GO 24-C apply to SCE and the Debt Securities, debt enhancements, swaps, and hedges authorized by this decision.

5.4.2. Ratemaking and Pub. Util. Code § 451

SCE's authority under this decision to issue \$450 million of Debt Securities to finance fuel inventories and to use debt enhancements, swaps, and hedges is separate from SCE's authority to recover the associated costs in rates. The all-in cost of the Debt Securities, debt enhancements, swaps, and hedges will be

reviewed in SCE's cost-of-capital proceedings or other appropriate proceedings. Similarly, the cost of fuel inventories financed with the proceeds from the Debt Securities will be reviewed in general rate case proceedings, Energy Resources Recovery Account (ERRA) proceedings, or other appropriate proceedings. Based on these reviews, the Commission will determine whether the cost of the Debt Securities, debt enhancements, swaps, hedges, and fuel inventories may be recovered in rates pursuant to Pub. Util. Code § 451, which states as follows:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

We note that previous Commission decisions have generally limited the recovery of "carrying costs" for fuel inventories to short-term debt rates.⁶ Therefore, even though this decision authorizes SCE to issue long-term debt to finance fuel inventories, the Commission may limit SCE's recovery of carrying

⁶ See, for example, D.11-05-018, Ordering Paragraph 29; D.09-03-025, Findings of Fact 305 and 309, and Conclusion of Law 202; D.06-05-015, Section 19.2 and Findings of Fact 174 and 175; and D.04-07-022, Section 8.5.

costs to short-term debt rates.⁷ In addition, the Commission may limit the recovery of carrying costs based on the amount of fuel inventory on hand, regardless of the amount of Debt Securities that are issued and outstanding. We emphasize that this decision does not determine the carrying costs for fuel inventories that SCE may recover in future rates. The amount of carrying costs that SCE may recover in rates will be decided in ERRA proceedings or other appropriate proceedings.

We also place SCE on notice that the authority granted by this decision to issue Debt Securities to finance nuclear fuel inventory associated with the closed SONGS may be affected by future Commission decisions in Investigation (I.) 12-10-013 where we are considering the regulatory disposition of SONGS and SONGS-related costs.⁸

Finally, SCE's authority to issue Debt Securities is subject to the condition that SCE shall maintain its Commission-approved capital structure.

5.4.3. Pub. Util. Code § 1904

Pub. Util. Code §§ 1904(b) and 1904.1 require utilities to pay a fee for authority to issue debt and equity securities (hereafter, "§ 1904 Fee"). The § 1904 Fee does not apply when the authorized debt or equity is used to retire or refund maturing securities on which the fee was paid previously.

This decision authorizes SCE to issue \$450 million of Debt Securities, of which \$400 million will be used to retire or refund maturing long-term debt on

⁷ The Commission has previously held that a utility may finance fuel inventories however it pleases, but the carrying costs that the utility may recover in rates is limited to short-term interest rates. (D.96-01-011, 64 CPUC2d 241, 358-359; and D.93-01-027, 47 CPUC2d 682, 694.)

⁸ Order Instituting Investigation 12-10-013 at page 1.

which the § 1904 Fee was paid previously. Therefore, the net amount of Debt Securities subject to the § 1904 Fee is \$50 million (i.e., \$450 million less \$400 million). The following table shows the calculation of the § 1904 Fee for \$50 million of Debt Securities:

| § 1904 Fee for \$50,000,000 of Debt Securities | | |
|---|--------------------|-----------------|
| Amount | Rate | Fee |
| \$1,000,000 | \$2 per \$1,000 | \$2,000 |
| \$9,000,000 | \$1 per \$1,000 | \$9,000 |
| \$40,000,000 | \$0.50 per \$1,000 | \$20,000 |
| \$50,000,000 | | \$31,000 |

SCE shall pay the § 1904 Fee shown in the above table no later than 30 days from the effective date of this decision. The authority granted by this decision will become effective upon the payment of the § 1904 Fee.

6. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that (1) may cause a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and (2) require discretionary approval from a governmental agency, unless exempted by statute or regulation.⁹ A project is exempt from CEQA when it can be seen with certainty that the activity in question will not have a significant effect on the environment.¹⁰ The Commission is the lead agency under CEQA with respect to

⁹ California Public Resources (Cal. Pub. Res.) Code § 21067.

¹⁰ CEQA Guidelines, Title 14 of the California Code of Regulations, Division 6, Chapter 3, Article 20, Section 15061(b)(3). (Hereafter, "CEQA Guidelines".)

A.13-09-004 and, therefore, must determine if the Debt Securities requested in A.13-09-004 are exempt from CEQA.¹¹

Based on the record of this proceeding, we conclude that granting SCE authority to issue the Debt Securities requested in A.13-09-004 will not affect the amount, use, or other aspects of SCE's fuel inventories. Therefore, it can be seen with certainty that authorizing SCE to issue the requested Debt Securities will not have a significant effect on the environment. Accordingly, the Debt Securities authorized by this decision are exempt from CEQA.

7. Categorization and Need for Hearings

In Resolution ALJ 176-3322, dated September 19, 2013, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that a hearing is necessary. The categorization of this proceeding as ratesetting was affirmed and finalized by the Scoping Memo.

There were no protests or responses to A.13-09-004, and no factual issues were raised at the prehearing conference or since then. Based on these circumstances, we hereby change the preliminary determination that a hearing is necessary. We now find that a hearing is not necessary.

8. Comments on the Proposed Decision

The proposed decision was mailed to the parties in accordance with Pub. Util. Code § 311, and comments were allowed in accordance with Rule 14.3 of the Commission's Rules of Practice and Procedure. There were no comments on the proposed decision.

¹¹ Cal. Pub. Res. Code §§ 21065 and 21080(a), and CEQA Guidelines Section 15061(a).

9. Assignment of the Proceeding

Michael R. Peevey is the assigned Commissioner for this proceeding and Timothy Kenney is the assigned ALJ.

Findings of Fact

1. In A.13-09-004, SCE requests authority pursuant to Pub. Util. Code §§ 816 – 818, 821, 830, and 851 to issue \$450 million of Debt Securities for the following purposes: (i) pay accrued interest and other expenses incident to the issuance of the Debt Securities; (ii) finance diesel, natural gas, and nuclear fuel inventories; (iii) retire or refund \$400 million of debt securities that were issued previously to finance fuel inventories pursuant to D.03-11-018; and (iv) reimburse SCE for money it has expended from its income, or from funds in its treasury that were not secured or obtained from the issuance of debt and equity, for any of the previous purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

2. SCE forecasts it will have fuel inventories of at least \$450 million through 2016, and that its fuel inventories may exceed \$600 million during this period.

3. SCE has not demonstrated that it will have fuel inventories past 2024 that need to be financed with the Debt Securities requested in A.13-09-004.

4. In A.13-09-004, SCE requests authority to issue the types of Debt Securities identified in Section 4.3 of this decision. The requested types of Debt Securities will provide SCE with flexibility to issue debt at the lowest cost to ratepayers. Except as noted in the previous Finding of Fact, there is no good cause to prohibit SCE from issuing the requested types of Debt Securities.

5. In A.13-09-004, SCE requests authority under Pub. Util. Code § 851 to issue Debt Securities secured by utility property. Granting the request will not adversely affect the public interest.

6. In A.13-09-004, SCE requests authority to use (i) the debt enhancements identified in Section 4.4 of this decision; and (ii) the swaps and hedges identified in Section 4.5 of this decision. The purpose of the requested debt enhancements, swaps, and hedges is to improve the price, rates, terms and/or conditions of the Debt Securities for the benefit of ratepayers, and to hedge financial risks associated with the Debt Securities for the benefit of ratepayers.

7. Previous Commission decisions have generally limited the recovery of carrying costs for fuel inventories to short-term debt rates.

8. SCE's request in A.13-09-004 for authority to issue \$450 million of Debt Securities to finance fuel inventories includes nuclear fuel inventory for the closed SONGS. The Commission is considering the regulatory disposition of SONGS and SONGS-associated costs in I.12-10-013.

9. It can be seen with certainty that granting SCE authority to issue the requested Debt Securities will not have a significant effect on the environment.

10. In Resolution ALJ 176-3322, dated September 19, 2013, the Commission preliminarily determined that a hearing is necessary in this proceeding.

11. There are no contested factual issues in this proceeding.

Conclusions of Law

1. SCE should be authorized pursuant to Pub. Util. Code § 816 – 818 to issue up to \$450 million of Debt Securities to finance diesel, natural gas, and nuclear fuel inventories for SCE's public utility operations. Pursuant to Pub. Util. Code § 816 - 818, the authorized Debt Securities should be used exclusively for the purposes identified in Finding of Fact 1 of this decision.

2. The \$450 million of Debt Securities authorized by this decision are for purposes allowed by Pub. Util. Code § 817 and, as required by § 818, such purposes are not reasonably chargeable to operating expenses or income.

3. SCE should be authorized pursuant to Pub. Util. Code § 816 to issue the types of Debt Securities described in Section 4.3 of this decision, subject to the restriction that none of the Debt Securities should have a maturity beyond 2024.

4. SCE should be authorized pursuant to Pub. Util. Code § 821 to issue Debt Securities that are convertible into common stock using the debt enhancement features described in Section 4.4 of this decision.

5. SCE should be authorized pursuant to Pub. Util. Code § 830 to guarantee Debt Securities, debt enhancements, swaps, and hedges of affiliates, subject to the conditions specified in this decision.

6. SCE should be authorized pursuant to Pub. Util. Code § 851 to encumber utility assets using the secured Debt Securities described in Section 4.3 of this decision. Consistent with § 851, if a default occurs and title to any SCE property, franchise, permit, or right that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to the terms of the secured debt indenture, the thing transferred should be used to provide utility service to the public until the Commission authorizes otherwise.

7. SCE has satisfied the requirements of D.12-06-015 for authority to use the debt enhancements, swaps, and hedges identified in Sections 4.4 and 4.5 of this decision. SCE should be authorized pursuant to Pub. Util. Code §§ 816 - 818 to use these debt enhancements, swaps, and hedges with respect to the Debt Securities authorized by this decision.

8. The Financing Rule and GO 24-C apply to SCE and the Debt Securities, debt enhancements, swaps, and hedges authorized by this decision.

9. The authority granted by this decision to issue Debt Securities to finance fuel inventories and to use debt enhancements, swaps, and hedges is separate from the authority to recover in rates (i) the cost of Debt Securities, (ii) the cost of

debt enhancements, swaps, and hedges, (iii) carrying cost for fuel inventories, and (iv) the cost of fuel drawn from inventories to generate electricity. The Commission will determine in future regulatory proceedings the amount of the aforementioned costs that are just, reasonable, and may be recovered in rates.

10. Although this decision authorizes SCE to issue long-term debt to finance fuel inventories, the carrying costs for fuel inventories that SCE may recover in rates may be limited to commercial paper rates or other short-term debt rates.

11. SCE's authority under this decision to issue Debt Securities to finance SONGS-related nuclear fuel inventory may be affected by future Commission decisions in I.12-10-013 or other Commission proceedings.

12. SCE should be authorized pursuant to Pub. Util. Code § 816 to issue the requested Debt Securities subject to the condition that SCE maintains its Commission-authorized capital structure.

13. SCE is required by Pub. Util. Code §§ 1904(b) and 1904.1 to pay a fee of \$31,000 as set forth in Section 5.4.3 of this decision. The authority granted by this decision should not become effective until SCE has paid the fee.

14. The Commission is the lead agency under CEQA for A.13-09-004.

15. The Debt Securities authorized by this decision are exempt from CEQA.

16. There are no factual issues in this proceeding that require an evidentiary hearing. The preliminary determination in Resolution ALJ 176-3322 that a hearing is needed should be changed to a hearing is not needed.

17. The following order should be effective immediately so that SCE may issue the Debt Securities authorized by the order.

O R D E R**IT IS ORDERED** that:

1. Southern California Edison Company (SCE) is authorized pursuant to Public Utilities Code Sections 816 – 818, 821, 830, and 851 to do the following:
 - a. Issue one or more series of debt securities with an aggregate principal amount not to exceed \$450 million (“Debt Securities”).
 - b. Use the proceeds from the Debt Securities for the following purposes only: (i) pay accrued interest and expenses incident to the issuance of the Debt Securities; (ii) finance diesel, natural gas, and nuclear fuel inventories; (iii) retire or refund \$400 million of debt securities issued previously to finance fuel inventories pursuant to Decision 03-11-018; and (iv) reimburse SCE for money it has expended from its income, or from funds in its treasury that are not secured or obtained from the issuance of debt or equity, for the aforesaid purposes except maintenance of service and replacements. The amounts so reimbursed shall become a part of SCE’s general treasury funds.
 - c. Guarantee the Debt Securities, debt enhancements, swaps, and hedges (together, “obligations”) of regulated affiliates of SCE, subject to the following conditions:
 - (i) The affiliate obligations that are guaranteed by SCE are for the purposes authorized by this Order.
 - (ii). The affiliate obligations that are guaranteed by SCE result in an equal or lower cost of money for SCE’s customers compared to SCE issuing the Debt Securities itself.
 - (iii) SCE shareholders shall not profit, either directly or indirectly, from the affiliate obligations that are guaranteed by SCE.
 - (iv) The Commission and its staff shall have full and timely access to all affiliate books, records, and other information that pertain to the obligations that are guaranteed by SCE.

- d. Issue Debt Securities that are secured by utility property. If a default occurs and title to any of SCE's assets, property, franchise, permit, or right that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to the terms of a secured debt indenture, the thing transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.
- e. Issue the following types of Debt Securities: mortgage bonds, debentures, notes, subordinated debt securities, overseas indebtedness, foreign currency denominated securities, medium-term notes, commercial paper, other floating or variable-rate debt, credit or loan agreements, and other evidence of indebtedness. The principal amount, terms and conditions of each issue of Debt Securities may be determined by SCE's management and/or board of directors based on market conditions at the time of issuance.
- f. Renew and/or refund commercial paper and other floating or variable-rate Debt Securities, so that the combined term of the obligations may exceed twelve months without further authorization from the Commission.
- g. Arrange credit facilities for the purpose of issuing the Debt Securities, and to modify such credit facilities without further authorization from the Commission, provided that such modifications comply with this Order.
- h. Execute and deliver an indenture or supplemental indenture in connection with the Debt Securities.
- i. Issue, sell, and deliver Debt Securities by public offering or private placement.
- j. Use the following debt enhancements with respect to the Debt Securities authorized by this Order: Standby bond purchase agreements, surety bonds, insurance policies, and other credit-support arrangements; redemption provisions and call options that allow Debt Securities to be redeemed or repaid prior to maturity; put options that provide the owner of a Debt Security with the right to sell the security to SCE or an affiliate under specified terms and conditions; sinking funds; and warrants that entitle the holder to purchase another

- Debt Security or share of capital stock, provided that debt or equity issued pursuant to warrants comply with this Order.
- k. Use the following financial instruments to reduce financial risks associated with the Debt Securities authorized by this Order: Interest rate caps, floors, collars, swaps, and forward-starting contracts; Treasury locks and caps; and foreign currency swaps and forward-starting currency swaps. Such financial instruments shall not be considered as separate debt for the purpose of determining the aggregate principal amount of debt issued pursuant to this Order.
2. The maturity of Debt Securities that are issued pursuant to this Order shall not extend beyond 2024.
 3. This Order does not authorize or approve (a) the physical amount, composition, or costs of Southern California Edison Company's (SCE's) fuel inventories; (b) the carrying costs for SCE's fuel inventories; or (c) the costs, terms, and conditions of any Debt Securities, debt enhancements, swaps, hedges, and related transactions. These matters will be reviewed and approved by the Commission, as appropriate, in other proceedings.
 4. Southern California Edison Company's authority pursuant to this Order to issue Debt Securities to finance nuclear fuel inventory associated with the San Onofre Nuclear Generating Station may be affected by Commission decisions in Investigation 12-10-013 or other proceedings.
 5. Southern California Edison Company and the Debt Securities, debt enhancements, swaps, hedges, and other transactions authorized by this Order are subject to (a) the Financing Rule adopted by Decision (D.) 12-06-015, as corrected by D.12-07-003; (b) General Order 24-C; and (c) the capital structure and associated capital ratios adopted by the Commission.

6. Within 30 days from the effective date of this Order, Southern California Edison Company (SCE) shall remit a check for \$31,000 pursuant to Public Utilities Code Sections 1904(b) and 1904.1 to the Commission's Fiscal Office at 505 Van Ness Avenue, San Francisco, CA 94102. The decision number of this Order must appear on the face of the check. The authority granted by this Order shall become effective when SCE pays \$31,000.

7. The preliminary determination in Resolution ALJ 176-3322 that a hearing is needed is changed to a hearing is not needed.

8. Application 13-09-004 is granted to the extent set forth in the previous Ordering Paragraphs.

9. Application 13-09-004 is closed.

This Order is effective today.

Dated _____, at San Francisco, California.